

TO: Citizens Rate Advisory Committee
FROM: Sara Thome
RE: **Market-based Rates**

DATE: April 5, 2004

Background

Since 1996, City Light has offered an optional market-indexed rate schedule (Variable Rate General Service) to its customers in the High Demand General Service rate class. Schedule VRC is an optional (initially proposed as experimental) rate schedule for High Demand General Service customers eligible to be served under Schedule HDC. Customers who choose to receive power under a market-indexed rate schedule are charged a daily rate that consists of a retail services charge, demand charges and an energy charge. The energy charge is computed daily and consists of the customer's energy consumption multiplied by either of two indices of Western spot market prices-the Dow Jones California-Oregon Border (COB) Price Index or the Dow Jones Mid-Columbia Price Index. The energy charge also includes an allowance for taxes and losses. The retail portion of the rate does not vary and is intended to cover all other costs not captured in the energy charge or the demand charges. The current retail services charge is 1.46 cents per kWh. The demand charges are the same as those in the standard High Demand rate schedules.

Initially three customers opted to take power under the market-indexed rate. In 1996 and 1997, when spot market prices were low, these customers paid less to City Light than they would have paid under the standard rate schedules. As prices rose in 1998, the market-based energy charge was higher than the energy charge embedded in City Light's standard rates. By September 1998, all three customers had returned to the standard rate schedules. Over the period during which market-based rates were used, the three customers paid about \$150,000 more to City Light than they would have paid under standard rates. No customers are receiving power under the market-based rate schedule at the present time.

Purpose

The purpose of this rate schedule is to allow High Demand General Service customers access to market priced power while preserving them as City Light customers who contribute equitably to the variable and fixed costs of providing electrical service. This rate schedule will also give City Light information about the preferences of customers with respect to variable market-based rates.

Conditions of Service

In order to be eligible for this rate, a customer must normally qualify for service under Schedule HDC. A customer that chooses this rate schedule may not return to a standard

rate schedule for a period of one year after electing this schedule, provided that, should a new rate ordinance which changes Schedule VRC be adopted during this time, the customer may request return to a standard rate schedule upon the effective date of the new ordinance

Energy Charge

The energy charge is linked to the Dow Jones California-Oregon Border Price Index (DJ-COB) or the Dow Jones Mid-Columbia Price Index. When the DJ-COB and/or the Dow Jones Mid-Columbia Price Index are not available, the average for the previous and succeeding days' index is used. The energy charge includes an allowance for taxes, losses, and ancillary services.

Potential Advantages & Disadvantages

- If a customer foresees a sufficiently low level of the DJ-COB and/or the Dow Jones Mid-Columbia Price Index it may anticipate that it will pay somewhat less than it would under standard rates. It is only in this event that the customer would choose this rate option.
- If the DJ-COB and/or the Dow Jones Mid-Columbia Price Index turns out to be higher than anticipated by the customer, SCL may actually collect more from the customer than under current rates
- The customer is assuming the price risk inherent in the wholesale market which relieves City Light of some of the risk of depending more on the market and less on BPA and others to serve load.
- The customer has better incentives than under current rates to reduce consumption when electricity is scarce and increase it when electricity is plentiful. This should help City Light reduce costs by avoiding capacity purchases at times of system peak load since those are usually also times of high spot prices of electricity.

Should City Light continue to offer customers a rate that is indexed to market prices?

- a) Eliminate the market-indexed rate alternative, since no customers are likely to use it in the near future.
- b) Continue to offer market-indexed rates, since it is possible that market prices could decline in the future to the point where some customers might take advantage of this alternative.